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Submitted Electronically

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Currency 400 7th Street SW, Suite
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Board of Governors of the Federal Reserve
System 20th Street and Constitution Avenue
NW Washington, DC 20551
FRB Docket No. R-1876 and RIN 7100-AH08

Federal Deposit Insurance
Corporation 550 17th Street NW
Washington, DC
20429 FDIC RIN
3064-AG17

RE: Revisions to the Community Bank Leverage Ratio Eliminating the 25% Cap on MSAs

Ladies and Gentlemen:

We are writing to provide comments on the NPR regarding the CBLR framework. We strongly support the proposal to lower the CBLR threshold from 9% to 8% and extend the grace period to four quarters. In addition, we urge the agencies to utilize this rulemaking to eliminate the current 25%, Mortgage Servicing Asset (MSA) cap from CBLR.

MSAs Are Effectively Regulated Through the Examination Process

MSAs are already subject to rigorous oversight through the safety and soundness examination process. Examiners have the authority to require that MSAs be hedged, charged down, or sold in whole or in part based on an institution's specific risk profile. Furthermore, banks often utilize third-party MSA advisory firms to ensure accurate valuations and sophisticated risk management. Utilizing granular, risk-based supervision is more effective than the current "one size fits all" formula that regulates via autopilot. In addition to regulatory oversight, a number of

these assets are backed by government agencies and are considered full faith in credit to further mitigate any risk to the institution.

Mortgage Servicing Is NOT Risky

The agencies' own 2016 Joint Report to Congress on MSAs supports the removal of the punitive MSA cap. The report's analysis of banking institution failures indicated that MSAs were not a significant risk factor to the Deposit Insurance Fund (DIF). The agencies previously determined that the MSA cap could be removed without any adverse effect on the DIF. This admission underscores that mortgage servicing is a safe activity that does not warrant a punitive cap.

Migration of Servicing to Non-Bank Entities

Basel III's punitive treatment of MSAs has caused a massive migration of mortgage servicing from highly regulated banks to non-banks that are effectively unregulated. The share of home mortgages serviced by non-banks rose from approximately 12% in 2012 to 61% by 2025, more than a **500%** increase. These non-bank entities operate under different capital standards, lack the enterprise-wide liquidity requirements inherent in banks, and are increasingly located offshore. Consumers lose when mortgage servicing is forced out of the banking system. In the small business sector, lenders choose to not participate, causing a capital "desert" for rural and underserved communities.

Benefits of Bank-Retained Servicing

Retaining servicing rights allows community banks to maintain long-term relationships with their customers where they provide personal service and streamlined assistance for modifications and refinancing. Additionally, community banks benefit from the stable annuity of fee income and the float on escrow deposits which support their ability to provide credit and reinvest back into their local communities.

The Cap Prevents the Scale Required for Servicing

Mortgage servicing is a scale business. The MSA cap discriminates against small community banks by preventing them from reaching the critical mass of customers needed to invest in servicing technology and specialized staff. Forcing community banks to operate at small scale harms their competency, profitability and ultimately kills the viability of servicing mortgages. This also creates additional risk in the small business space. All government-guaranteed loans carry a servicing component that the bank is responsible for. Because of the MSA cap, banks are stressed to create the necessary departments needed to appropriately service these loan types causing the banks to shy away from these guaranteed loans to rural and underserved

communities thus starving these same underserved communities from capital.

Eliminating the Cap Is Consistent With Regulatory and Congressional Intent

The MSA cap dates back to Basel III which was intended to apply **only** to the world's largest banks. For whatever reason, U.S. regulators decided to apply Basel III to **all** banks. Years later regulators inexplicably extended the MSA cap to CBLR. This cut and paste exercise is the ultimate example of "one size fits all" regulation that makes no sense for CBLR given the limited risks of small, strong and non-complex community banks.

More fundamentally, the Congressional mandate in EGRRCPA is for CBLR is to be a capital simplification rule for small community banks, yet CBLR incorporates a foreign Basel III concept designed for SIFI's that caused the mortgage crisis. ***The proposed rule should correct the missed opportunity to cut the cord on the Basel III cap that is wholly inapplicable to CBLR banks and contrary to Congressional intent.***

Conclusion

The MSA cap poses a significant impediment for small community banks to competitively finance the purchase of their customers' home—the most important financial transaction most people ever undertake. Home ownership and small business ownership is the American Dream, and the economic driver that keeps this country strong and our rural communities viable. Community banks are a perfect partner for servicing those loans in communities where large banks choose not service. It is bad public policy to forcibly disconnect customers from their local community bank. Regulators should correct this mistake. Thank you.

Respectfully submitted,



Jeremy F. Gilpin
President and CEO
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